REPORT OF THE AUDIT OF THE
LEE COUNTY
SHERIFF'S SETTLEMENT - 2007 TAXES

For The Period
September 5, 2007 Through May 1, 2008

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Morgan-Franklin, LLC
Certified Public Accountants
P.O. Box 428
749 Broadway Street
West Liberty, Kentucky 41472

Brenda K. Morgan, CPA
Jody B. Franklin, CPA

Phone: (606) 743-1884
FAX: (606) 743-1895
www.morganfranklincpa.com

To the People of Kentucky
Honorable Steven L Beshear, Governor
Jonathan Miller, Secretary
Finance and Administration Cabinet
Honorable Steve Mays, Lee County Judge/Executive
Honorable Donnie Hogan, Lee County Sheriff
Members of the Lee County Fiscal Court

Independent Auditor's Report

We have audited the Lee County Sheriff's Settlement - 2007 Taxes for the period September 5, 2007 through May 1, 2008. This tax settlement is the responsibility of the Lee County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the Lee County Sheriff's taxes charged, credited, and paid for the period September 5, 2007 through May 1, 2008, in conformity with the modified cash basis of accounting.

To the People of Kentucky
Honorable Steven L Beshear, Governor
Jonathan Miller, Secretary
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Honorable Steve Mays, Lee County Judge/Executive
Honorable Donnie Hogan, Lee County Sheriff
Members of the Lee County Fiscal

In accordance with Government Auditing Standards, we have also issued our report dated October 21, 2008, on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Based on the results of our audit, we present the accompanying comments and recommendations, included herein, which discusses the following report comments:

- The Sheriff's Office Lacks An Adequate Segregation Of Duties
- The Sheriff Should Require Depository Institutions To Pledge Or Provide Additional Collateral Of $ 458,305 To Protect Deposits
- The Sheriff Should Distribute Interest Earned On Tax Collections Monthly
- The Sheriff Should Distribute Tax Collections By The Tenth Of The Month

Respectfully submitted,

Morgan - Franklin, LLC

Morgan- Franklin, LLC

October 21, 2008

LEE COUNTY
DONNIE HOGAN, COUNTY SHERIFF
SHERIFF'S SETTLEMENT - 2007 TAXES

For The Period September 5, 2007 Through May 1, 2008

Charges	County Taxes	Special Taxing Districts	School Taxes	State Taxes
Real Estate	$ 646,319	$ 293,937	$ 486,458	$ 213,148
Tangible Personal Property	113,953	33,067	41,299	43,285
Intangible Personal Property				18
Fire Protection	2,584			
Increases Through Exonerations	230	105	173	181
Franchise Corporation	137,950	41,453	55,018	
Additional Billings	427	194	321	234
Bank Franchises	18,421			
Penalties	8,624	3,820	6,362	2,889
Adjusted to Sheriff's Receipt	10,316	4,699	8,290	3,409
Gross Chargeable to Sheriff	938,824	377,275	597,921	263,164
Credits				
Exonerations	8,980	3,783	6,052	2,499
Discounts	8,643	3,529	5,682	2,739
Delinquents:				
Real Estate	21,164	9,590	15,870	6,954
Tangible Personal Property	5,220	1,515	1,892	2,847
Uncollected Franchise	7,617	3,339	5,648	
Total Credits	51,624	21,756	35,144	15,039
Taxes Collected	887,200	355,519	562,777	248,125
Less: Commissions *	37,994	15,110	22,511	10,833
Taxes Due	849,206	340,409	540,266	237,292
Taxes Paid	849,285	340,550	540,439	237,523
Refunds (Current and Prior Year)	88	40	67	29
Due Districts or (Refunds Due Sheriff) as of Completion of Fieldwork	$ (167)	$ (181) **	$ (240)	$ (260)

* and ** See Page 4

The accompanying notes are an integral part of this financial statement.

LEE COUNTY
DONNIE HOGAN, SHERIFF
SHERIFF'S SETTLEMENT – 2007 TAXES
For The Period September 5, 2007 Through May 1, 2008
(Continued)

* Commissions:

10% on	$	10,000
4.25% on	$	1,480,844
4% on	$	562,777

** Special Taxing Districts:

Library District	$	(81)
Health District		(47)
Extension District		(18)
Soil Conservation District		(35)
Due Districts or (Refunds Due Sheriff)	$	(181)

LEE COUNTY
NOTES TO FINANCIAL STATEMENT

May 1, 2008

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Lee County Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Note 2. Deposits (Continued)

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's depostis may not be returned. The Sheriff does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of May 1, 2008, all deposits were covered by FDIC insurance or a properly executed collateral security agreement. However, as of October 31, 2007, public funds were exposed to custodial credit risk because the collateral and FDIC insurance together did not equal or exceed the amount on deposit, leaving $458,305 of public funds uninsured and unsecured.

The county official's deposits are categorized below to give an indication of the level of risk assumed by the county official at as of October 31, 2007.

	Bank Balance
FDIC Insured	$ 100,000
Collateralized with securities held by the county official's agent in the county official's name	200,000
Uncollateralized and uninsured	458,305
Bank Balance At May 1, 2008	$ 758,305

Note 3. Tax Collection Period

Property Taxes

The real and personal property tax assessments were levied as of January 1, 2007. Property taxes were billed to finance governmental services for the year ended June 30, 2008. Liens are effective when the tax bills become delinquent. The collection period for these assessments was September 25, 2007 through May 1, 2008.

Note 4. Interest Income

The Lee County Sheriff earned $856 as interest income on 2007 taxes. As of May 1, 2008, the Sheriff owed $225 in interest to the school district and $561 in interest to his fee account.

Note 5. Sheriff's 10% Add-On Fee

The Lee County Sheriff collected $16,484 of 10% add-on fees allowed by KRS 134.430(3). This amount will be used to operate the Sheriff's office.

Note 6. Advertising Costs And Fees

The Lee County Sheriff collected $4,085 of advertising costs allowed by KRS 424.330(1) and KRS 134.440(2). The Sheriff distributed the advertising costs to the county as required by statute, and the advertising fees were used to operate the Sheriff's Office.

Note 7. Unrefundable Duplicate Payments And Unexplained Receipts Should Be Escrowed

The Sheriff should deposit any unrefundable duplicate payments and unexplained receipts in an interest-bearing account. According to KRS 393.110, the Sheriff should properly report annually to the Treasury Department any unclaimed moneys. After three years, if the funds have not been claimed, the funds should be submitted to the Kentucky State Treasurer. For the 2007 taxes, the Sheriff had $53 in unrefundable duplicate payments and unexplained receipts. Therefore, the Sheriff should send a written report to the Treasury Department.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Morgan-Franklin, LLC
Certified Public Accountants
P.O. Box 428
749 Broadway Street
West Liberty, Kentucky 41472

Brenda K. Morgan, CPA
Jody B. Franklin, CPA

Phone: (606) 743-1884
FAX: (606) 743-1895
www.morganfranklincpa.com

To Honorable Steve Mays, Lee County Judge/Executive
Honorable Donnie Hogan, Lee County Sheriff
Members of the Lee County Fiscal Court

Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the Lee County Sheriff's Settlement - 2007 Taxes for the period September 5, 2007 through May 1, 2008, and have issued our report thereon dated October 21, 2008. The Sheriff prepares his financial statement in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Lee County Sheriff's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Lee County Sheriff's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Lee County Sheriff's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affect the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the modified cash basis of accounting such that there is more than a remote likelihood that a misstatement of the entity's financial statement that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the deficiency described in the accompanying comments and recommendations to be a significant deficiency in internal control over financial reporting.

Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

- The Sheriff's Office Lacks An Adequate Segregation Of Duties

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statement will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purposed described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider the significant deficiency described above to be a material weakness.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Lee County Sheriff's Settlement - 2007 Taxes for the period September 5, 2007 through May 1, 2008 is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying comments and recommendations.

- The Sheriff Should Require Depository Institutions To Pledge Or Provide Additional Collateral Of $ 458,305 To Protect Deposits
- The Sheriff Should Distribute Interest Earned On Tax Collections Monthly
- The Sheriff Should Distribute Tax Collections By The Tenth Of The Month

The Lee County Sheriff's response to the findings identified in our audit is included in the accompanying comments and recommendations. We did not audit the Sheriff's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, the Lee County Fiscal Court, and the Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

Morgan - Franklin, LLC

Morgan-Franklin, LLC

October 21, 2008

COMMENTS AND RECOMMENDATIONS

LEE COUNTY
DONNIE HOGAN, SHERIFF
COMMENTS AND RECOMMENDATIONS

For The Period September 5, 2007 Through May 1, 2008

STATE LAWS AND REGULATIONS:

The Sheriff Should Require Depository Institutions To Pledge Or Provide Additional Collateral Of $458,305 To Protect Deposits

On October 31, 2007, $458,305 of the Sheriff's deposits of public funds in depository institutions were uninsured and unsecured. According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with Federal Deposit Insurance Corporation insurance, equals or exceeds the amount of public funds on deposit at all times. We recommend that the Sheriff require the depository institution to pledge or provide collateral in an amount sufficient to secure deposits of public funds at all times.

Sheriff's Response: None.

The Sheriff Should Distribute Interest Earned On Tax Collections Monthly

KRS 134.140(3)(b) requires the Sheriff to pay monthly "that part of his investment earnings for the month which is attributable to the investment of school taxes." The Sheriff should distribute the investment earnings at the same time as the monthly tax collections. KRS 134.1240(3)(d) requires the remaining monthly interest to be transferred to the Sheriff's fee account. During the 2007 tax year, the Sheriff earned interest of $856 on his tax account. As of May 1, 2008, the Sheriff owes the Lee County Board of Education $225 and his official fee account $561. We recommend that the Sheriff comply with KRS 134.140(3)(b) by paying the amount of interest due to the school and fee account on a monthly basis.

Sheriff's Response: None.

The Sheriff Should Distribute Tax Collections By The Tenth Of The Month

The Sheriff did not report and distribute money collected during the preceding month by the tenth of each month as required by KRS 134.300. We recommend the Sheriff comply with KRS 134.300, which requires the reporting and distribution of each month's collections by the tenth of the following month.

Sheriff's Response: We collected on May 1, 2008 and remitted on May 29, 2008.

LEE COUNTY
DONNIE HOGAN, SHERIFF
COMMENTS AND RECOMMENDATIONS
For The Period September 5, 2007 Through May 1, 2008
(Continued)

SIGNIFICANT DEFICIENCY - MATERIAL WEAKNESS:

The Sheriff's Office Lacks An Adequate Segregation Of Duties

The Sheriff's office has a lack of adequate segregation of duties. Due to the entity's diversity of official operations, small size and budget restrictions, the official has limited options for establishing an adequate segregation of duties. We recommend that the following compensating controls be implemented to offset this internal control weakness:

- The Sheriff should periodically compare a daily bank deposit to the daily checkout sheet and then compare the daily checkout sheet to the receipts ledger. Any differences should be reconciled. This could be documented by initialing the bank deposit, daily deposit, and receipts ledger.

- The sheriff should compare the monthly tax reports to the receipts and disbursements ledgers for accuracy. Any differences should be reconciled. This could be documented by initialing the monthly tax reports.

- The sheriff should periodically compare the bank reconciliation to the balance in the checkbook. Any difference should be reconciled. This could be documented by initialing the bank reconciliation and the balance in the checkbook.

Sheriff's Response: None.